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TAGS: ECON ECIN ETRD PREL PGOV MY

SUBJECT: AMBASSADOR AND DPM NAJIB DISCUSS APEC, WORLD FINANCIAL TURMOIL AND ECONOMIC PRIORITIES

Classified By: CDA Robert Rapson, reasons 1.4 (b and d).

Summary and Comment

¶1. (C) The Ambassador met on November 11 with Malaysian Deputy Prime Minister Najib Tun Razak and, in the context of priorities in our bilateral relations in the lead up to the new U.S. administration, discussed APEC, the global financial crisis, FTA talks, and economic reform measures. The Ambassador highlighted development of free markets and fostering trade and investment as key APEC themes. Najib acknowledged the significance of U.S. economic leadership, and described recent U.S. economic indicators as "quite worrying." Najib applauded China's recent \$550 billion fiscal stimulus package and argued for "more interventionist policies" to shorten the period of economic recovery. The Ambassador emphasized the importance of sending positive signals on the U.S.-Malaysia FTA talks in the transition to the new U.S. administration, and Najib reaffirmed Malaysia's commitment to negotiating an agreement. Najib said Malaysia was "in the midst of liberalizing the services sector," and "a major announcement is imminent."

¶2. (C) Comment: Najib clearly reflected Malaysia's focus on finding ways to address the financial crisis and global economic slowdown which now is having an increasingly negative impact on Malaysia. He will make this his top issue at the APEC Leaders Meeting. We should be prepared for Malaysia to support proposals for language in the APEC leaders statement calling for an international financial architecture which provides for stiffer regulatory oversight and support for regularized government intervention in solving financial issues, crisis or not. In the case of the FTA, Najib's expression of continued interest in pursuing an agreement with us is a positive sign, but Malaysia clearly needs to do much more if it is seriously interested in positioning itself in a way that would make concluding an FTA possible. End Summary and Comment.

Ambassador Briefs Najib on APEC Themes

¶3. (SBU) The Ambassador met on November 11 with Deputy Prime Minister Najib Tun Razak, who is scheduled to take over the role of Prime Minister in late March 2009 and who currently holds the portfolio of Finance Minister. In the context of priorities in our bilateral relations in the lead up to the new U.S. administration, the Ambassador and Najib discussed APEC, our bilateral FTA talks, Malaysia's domestic economic reform measures and views of the global financial turmoil (septels cover other matters). Polcouns accompanied Ambassador as notetaker. Malaysian Foreign Ministry Deputy Secretary General II Kamal Yan bin Yahya, MFA Senior Under

Secretary for the Americas Zainuddin Yahya, and Ministry of International Trade and Industry (MITI) Senior Director for APEC Mr. Vasudevan joined DPM Najib.

¶4. (SBU) With DPM Najib due to represent Malaysia at APEC, the Ambassador reviewed important themes for the Peru meeting. Against the backdrop of the world financial crisis and concerns over renewed protectionism, APEC can play a key role by remaining committed to developing free markets, and to fostering an enabling environment for trade and investment, the Ambassador stated. These themes would be part of the solution to the world economic turmoil in the months ahead. We should work on these themes with the clear understanding that our markets are deeply linked to one another, and "we are all in this together." Najib replied that these themes are "comforting" and "exactly what we want to hear." Najib continued that, "we look to U.S. leadership....only the U.S. can make a difference," in facing the global economic difficulties. He expressed hope that the U.S. could bring its economy under control, although recent U.S. economic indicators were "quite worrying," with both corporate earnings and consumer spending down. "This is bad news for the whole world," Najib said.

Najib Argues for "Interventionist" Policies

¶5. (SBU) Najib applauded China's recent \$500 billion fiscal stimulus package, and noted some subsequent signs of recovery in Asian markets. Najib said governments needed to pursue "more interventionist policies," something that Malaysia had advocated during the 1997-98 Asian financial crisis. "No

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government wants 'creative destruction,' loss of jobs and loss of confidence." Najib argued, "We must shorten the period of recovery" by putting interventionist measures in place. Najib noted the Malaysian government has established a 5 billion ringgit fund to support stock prices, would provide further support to the "Cyberjaya" project for high tech and information industries, and would seek to finalize a major investment decision by a large U.S. firm.

Najib: Malaysia Committed to FTA

¶6. (C) The Ambassador highlighted the importance of sending positive signals on the U.S.-Malaysia FTA talks in the transition to the new U.S. administration. Washington would look for signs of progress and some momentum in the discussions as evidence that Malaysia wants to move forward and conclude a quality FTA. The Ambassador gave credit to International Trade and Industry Minister Muhyiddin for recent FTA efforts. Najib responded that he had chaired the Cabinet meeting earlier in the year that had provided Minister Muhyiddin with a "fresh mandate" to negotiate, including revised positions on several issues on which Malaysia could be more flexible. Malaysia wished to continue the FTA talks and hoped to conclude an agreement soon, Najib stated.

¶7. (C) Najib elaborated that Malaysia wished to "collaborate" further with the U.S. to increase bilateral trade and to attract more high technology investments and professional services. "We are in the midst of liberalizing the services sector," Najib stated, and "a major announcement is imminent."

RAPSON